

MEDINA TOWNSHIP
LENAWEE COUNTY, MICHIGAN
ANNUAL FINANCIAL REPORT
JUNE 30, 2004

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name MEDINA TOWNSHIP	County LENAAWEE
Audit Date 6/30/04	Opinion Date 11/18/04	Date Accountant Report Submitted to State: 12/6/04	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGR).			✓

Certified Public Accountant (Firm Name) PHILIP R. RUBLEY, CPA			
Street Address 133 W. MAIN ST.	City MORENCI	State MI	ZIP 49256
Accountant Signature 		Date 11/18/04	

**MEDINA TOWNSHIP
ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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PHILIP R. RUBLEY

- Certified Public Accountant -

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PHILIP R. RUBLEY, C.P.A.

MEMBERS OF
AMERICAN INSTITUTE OF C.P.A.'s
& THE MICHIGAN ASSOCIATION OF C.P.A.'s

November 18, 2004

Board of Trustees
Medina Township
Lenawee County, Michigan

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Medina Township, Lenawee County, Michigan as of and for the year ended June 30, 2004, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Medina Township, Lenawee County, Michigan as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 10, the Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments*, as of July 1, 2003.

The management's discussion and analysis and budgetary comparison information on pages 2 through 4 and 19 through 20, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Respectfully Submitted,


Philip R. Rubley, CPA

PRR/cab

MEDINA TOWNSHIP
Management's Discussion and Analysis
June 30, 2004

Using This Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities are both new and provide information about the activities of Medina Township a government-wide basis. They are designed to present a longer-term view of the Township's finances. Fund financial statements, also slightly changed from prior years, follow the above-mentioned statements and illustrate how the services provided by the Township were financed in the short term, as well as what remains for future spending. Additionally, fund financial statements report the Township's operations in more detail than the government-wide financial statements.

In a condensed format, the table below shows the comparison of net assets (in thousands of dollars) as of June 30, 2004 to the prior year.

	<u>Governmental</u> <u>Activities</u>
	<u>2004</u>
Current Assets	\$172.8
Noncurrent Assets:	
Capital Assets	<u>21.7</u>
Total Assets	<u><u>194.5</u></u>
 Net Assets:	
Invested in Capital Assets	21.7
Unrestricted	<u>172.8</u>
Total Net Assets	<u><u>\$194.5</u></u>

The Township's combined net assets decreased 3.3 percent from a year ago, decreasing from \$201.0 thousand to \$194.5 thousand. This decrease was the result of excess expenses over revenues in 2004.

MEDINA TOWNSHIP
Management's Discussion and Analysis
June 30, 2004

The following table shows the changes in net assets (in thousands of dollars) as of June 30, 2004.

	<u>Governmental Activities</u>
	<u>2004</u>
Revenue	
Program Revenue:	
Charges for Services	\$ 4.7
General Revenue:	
Property Taxes	166.7
Intergovernmental	89.5
Interest	1.0
Other	<u>3.9</u>
Total Revenue	<u>265.8</u>
Program Expenses	
General Government	65.3
Public Safety	29.7
Public Works	177.3
Community & Economic Development	<u>.1</u>
Total Program Expenses	<u>272.4</u>
Change in Net Assets (Decrease)	(6.6)
Net Assets – Beginning of Year	<u>201.1</u>
Net Assets – End of Year	<u>\$194.5</u>

MEDINA TOWNSHIP
Management's Discussion and Analysis
June 30, 2004

Governmental Activities

The Township's total governmental revenues decreased approximately 1.3 thousand from the previous year. State shared revenues amounted to .5 thousand and the balance is less than anticipated outside sources of revenue.

Expenses remained fairly constant with a slight increase in the highways and bridges section.

The Township's Funds

Our analysis of the Township's major funds begins on Page 7, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the Township as a whole. The Township board creates funds to help manage money for specific purpose as well as show accountability for certain activities. The Township's major fund for 2004 is the General Fund.

General Fund Budgetary Highlights

Over the course of the year, the Township administration and Township Board monitor the budget to take into account unanticipated events that occur during the year. The most significant of these events during fiscal year 2004 were the decreases in anticipated State – shared revenues. These revenues decreased due to the downturn in the economy and State cutbacks during 2002 through 2004.

Capital Asset and Debt Administration

At the end of 2004, the Township had \$43,427 invested in capital assets, including land, buildings, and equipment. In addition, the Township has invested significantly in roads within the Township. These assets are not reported in the Township's financial statements because of Michigan law.

Economic Factors and Next Year's Budget and Rate

Medina Township is in rural Lenawee County, Michigan a farm community. Anticipated property tax increases and growth are not expected. In addition, State revenue sharings, which represents 37% of the General Fund budget, is likely to decrease, because of the State's current economic state. This will require close tabs on expenditures for the upcoming year. Adjustments will be made to mirror the revenue base, ensuring the continuation of the trend of excess revenues over expenditures.

Contacting the Township's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office.

MEDINA TOWNSHIP
Government Wide Statement of Net Assets
June 30, 2004

Primary Government

**Governmental
Activities**

ASSETS

Cash and Cash Equivalents	\$168,079
Property Tax Receivable	212
Prepaid Expenses	4,433
Other	8
Capital Assets - Net	<u>21,731</u>

Total Assets	<u>\$194,463</u>
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NET ASSETS

Invested in Capital Assets	\$ 21,731
Unrestricted	<u>172,732</u>

Total Net Assets	<u>\$194,463</u>
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MEDINA TOWNSHIP
Government Wide Statement of Activities
Year Ended June 30, 2004

		<u>Program Revenues</u>	
<u>FUNCTIONAL PROGRAMS</u>	<u>Expenses</u>	<u>Charges For Services</u>	<u>Net (Expense) Revenue</u>
Governmental Activities:			
General Government	\$ 65,230	\$ ---	\$ (65,230)
Public Safety	29,746	4,711	(25,035)
Public Works	177,268	---	(177,268)
Community and Economic Development	185	---	(185)
<u>Total Governmental Activities</u>	<u>\$272,429</u>	<u>\$4,711</u>	<u>\$(267,718)</u>
Change in Net Assets			\$(267,718)
General Revenues:			
Property Taxes			166,773
Intergovernmental Revenues			89,494
Interest Income			907
Metro Act			3,787
Miscellaneous			156
<u>Total General Revenues</u>			<u>261,117</u>
Change in Net Assets (Decrease)			(6,601)
Net Assets, Beginning of Year			<u>201,064</u>
Net Assets, End of Year			<u>\$ 194,463</u>

The notes to financial statements are an integral part of these statements.

MEDINA TOWNSHIP
Governmental Fund Balance Sheet
June 30, 2004

	<u>General Fund</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>		
Cash and Cash Equivalents	\$168,079	\$168,079
Property Tax Receivable	212	212
Pre-Paid Expenses	4,433	4,433
Due From Other Funds	<u>8</u>	<u>8</u>
Total Assets	<u>\$172,732</u>	<u>\$172,732</u>
<u>LIABILITIES</u>		
Accounts Payable	\$ ---	\$ ---
Deferred Revenue	<u>213</u>	<u>213</u>
Total Liabilities	<u>213</u>	<u>213</u>
<u>FUND BALANCE</u>		
Unreserved		
Undesignated	<u>172,519</u>	<u>172,519</u>
Total Fund Balance	<u>172,519</u>	<u>172,519</u>
Total Liabilities and Fund Balance	<u>\$172,732</u>	<u>\$172,732</u>

The notes to financial statements are an integral part of these statements.

MEDINA TOWNSHIP
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds
to Net Assets of Governmental Activities on the Statement of Net Assets
For The Year Ended June 30, 2004

Fund Balances – Total Governmental Funds	\$172,519
Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
ADD – Capital Assets	43,427
DEDUCT – Accumulated Depreciation	(21,696)
Deferred revenue – reflected as earned in net assets of governmental activities	<u>213</u>
Net Assets of Governmental Activities	<u>\$194,463</u>

MEDINA TOWNSHIP
Governmental Fund Statement of Revenue, Expenditures, and Changes in Fund Balance
For The Year Ended June 30, 2004

	<u>General Fund</u>	<u>Total Governmental Funds</u>
<u>REVENUES</u>		
Taxes and Administrative Fees	\$166,560	\$166,560
Licenses and Permits	3,506	3,506
Intergovernmental	89,494	89,494
Charges for Services	5,142	5,142
Interest and Penalties	<u>913</u>	<u>913</u>
Total Revenues	<u>265,615</u>	<u>265,615</u>
<u>EXPENDITURES</u>		
Current		
General Government	64,626	64,626
Public Safety	29,746	29,746
Public Works	177,268	177,268
Community & Economic Development	<u>185</u>	<u>185</u>
Total Expenditures	<u>271,825</u>	<u>271,825</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	(6,210)	(6,210)
Fund Balance, Beginning of Year	<u>178,729</u>	<u>178,729</u>
Fund Balance, End of Year	<u>\$172,519</u>	<u>\$172,519</u>

MEDINA TOWNSHIP
Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
For The Year Ended June 30, 2004

Net Change in Fund Balances – Total Governmental Funds	\$(6,210)
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:	
Government funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
ADD – Capital Outlay	---
DEDUCT – Depreciation Expense	(604)
Deferred revenue	<u>213</u>
Change in Net Assets of Governmental Activities	<u>\$(6,601)</u>

MEDINA TOWNSHIP
Fiduciary Funds – Statement of Net Assets
June 30, 2004

	Tax Collection Fund
<u>ASSETS</u>	
Cash	<u>\$25,950</u>
Total Assets	<u><u>\$25,950</u></u>
<u>LIABILITIES</u>	
Due to General Fund	\$ 8
Due to Other Governmental Units	<u>25,942</u>
Total Liabilities	<u><u>\$25,950</u></u>

MEDINA TOWNSHIP
Notes to Financial Statements
June 30, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Medina Township conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Medina Township.

A. Reporting Entity

Medina Township is governed by an elected board. The accompanying financial statements present the government for which government is considered to be financially accountable.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

MEDINA TOWNSHIP
Notes to Financial Statements
June 30, 2004

Property taxes, franchise taxes, intergovernmental revenue licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The government reports the following fund types:

The Fiduciary Funds account for assets held for other governments in an agency capacity, including tax collection, and other project funds.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government – wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private-sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government –wide financial statements.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities, and Net Assets or Equity

1. **Bank Deposits and Investment** – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loans associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

2. **Receivables and Payables** – In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

MEDINA TOWNSHIP
Notes to Financial Statements
June 30, 2004

3. **Prepaid Items** – Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements using the consumption method.
4. **Capital Assets** – Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Office Equipment	5 to 7 years
Computer Equipment	3 to 7 years

5. **Long - Term Obligations** – In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures. Presently Medina Township has no long-term debt at June 30, 2004.
6. **Fund Equity** – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

- A. **Budgetary Information** – Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end.

MEDINA TOWNSHIP
Notes to Financial Statements
June 30, 2004

On or before the end of June of each year, the Board presents the proposed budget for review and holds public hearings and a final budget adopted.

The appropriated budget is prepared by fund, function and department.

The general government function of the General Fund is treated as a department for budgetary purposes and its budget is adopted at the object level. No significant adjustments were made to the budget.

- B. **Excess of Expenditures Over Appropriations In Budgeted Funds** - P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the year ended June 30, 2004, the government incurred expenditures in excess of amounts appropriated at the legal level of budgetary control as follows:

	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund:			
Public Works:			
Drains	\$1,500	\$2,618	\$1,118

NOTE 3 – DEPOSITS AND INVESTMENTS

The government unit's deposits and investment policy are in accordance with statutory authority.

At year-end the government's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>
Cash, Certificates of Deposit	<u>\$168,079</u>

The checking account balance is insured by federal depository insurance of \$100,000.

MEDINA TOWNSHIP
Notes to Financial Statements
June 30, 2004

Investments are categorized into these three categories of credit risk:

1. Insured or registered, or securities held by the Local Governmental Unit or its agent in the government's name;
2. Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the government's name; and
3. Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Local Governmental Unit's name.

	<u>Category</u>				<u>Carrying Amount (Fair Value)</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Uncategorized</u>	
Cash and Cash Equivalents	<u>\$168,079</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$168,079</u>

NOTE 4 – RECEIVABLES

Receivables as of year-end for the government are as follows including applicable allowances for uncollectible accounts.

	<u>General Fund</u>
Taxes Receivable	<u>\$212</u>

NOTE 5 – CAPITAL ASSETS

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets				
Not Being Depreciated:				
Land	<u>\$ 1,000</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ 1,000</u>
Capital Assets				
Being Depreciated:				
Building	35,680	---	---	35,680
Equipment	<u>6,747</u>	<u>---</u>	<u>---</u>	<u>6,747</u>
Total Capital Assets				
Being Depreciated	<u>42,427</u>	<u>---</u>	<u>---</u>	<u>42,427</u>

MEDINA TOWNSHIP
Notes to Financial Statements
June 30, 2004

NOTE 5 – CAPITAL ASSETS (CONTINUED)

Governmental Activities	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decreases</u>	<u>Ending Balance</u>
Less Accumulated Depreciation For:				
Building	(14,345)	604	---	(14,949)
Equipment	<u>(6,747)</u>	<u>---</u>	<u>---</u>	<u>(6,747)</u>
Total Accumulated Depreciation	<u>(21,092)</u>	<u>604</u>	<u>---</u>	<u>(21,696)</u>
Total Capital Assets, Being Depreciated, Net	<u>21,335</u>	<u>(604)</u>	<u>---</u>	<u>(20,731)</u>
Governmental Activities Capital Assets, Net	<u>\$ 22,335</u>	<u>\$ (604)</u>	<u>\$ ---</u>	<u>\$ 21,731</u>

Depreciation expense was charged to Governmental Activities – general government for \$604 at June 30, 2004.

NOTE 6 – INTERFUND RECEIVABLE AND PAYABLES

	<u>Receivable</u>	<u>Payables</u>
General Fund	\$ 8	\$ ---
Tax Collection Fund	<u>---</u>	<u>8</u>
	<u><u>\$ 8</u></u>	<u><u>\$ 8</u></u>

NOTE 7 – RISK MANAGEMENT

The government is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2004, the government carried insurance through commercial carriers, to cover all risks of losses. The government has had no settled claims resulting from those risks that exceeded its coverage in any of the past three fiscal years.

MEDINA TOWNSHIP
Notes to Financial Statements
June 30, 2004

NOTE 8 – PROPERTY TAXES

The government's property taxes are levied each year, on the taxable valuation of property located within the township. These taxes are due by February 14, with final collection date of February 28, before they are added to the county tax rolls.

Delinquent real property taxes are reimbursed to the local unit through a county revolving tax fund.

The township receives millage of \$29,390. Additional assessment for Advance Life Support of \$61,875.

NOTE 9 – PENSION

The government has no pension, and has elected to be inclusive in the social security system.

NOTE 10 – ACCOUNTING AND REPORTING CHANGE

GASB 34

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments*. The Township has applied the provisions of this statement in the accompanying financial statements (including the notes to financial statements.) The Township has elected to implement both the general provisions of the statement and the retroactive reporting of the infrastructure in the current year. Certain significant changes in the statement include the following:

- A management's discussion and analysis (MD&A) section providing an analysis of the Township's overall financial position and results of operations.
- Financial statements prepared using a full accrual accounting for all of the Township's activities.
- A change in the financial statements to focus on the major funds.
- Capital assets in the governmental activities column of the statement of net assets includes assets not previously accounted for by the Township.
- The governmental activities column includes notes payable obligations previously reported in the General Long-term Debt Account Group.

MEDINA TOWNSHIP
Budgetary Comparison Schedule
General Fund
For The Year Ended June 30, 2004

	<u>Budget Original</u>	<u>Amounts Final</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
<u>REVENUES</u>				
Property Taxes and Fees	\$168,617	\$168,617	\$166,560	\$ (2,057)
Intergovernmental	90,000	90,000	89,494	(506)
Licenses and Permits	4,500	4,500	3,506	(994)
Charge for Services	2,100	2,100	5,142	3,042
Interest and Penalties	1,503	1,503	913	(590)
Other	<u>150</u>	<u>150</u>	<u>---</u>	<u>(150)</u>
Total Revenues	<u>266,870</u>	<u>266,870</u>	<u>265,615</u>	<u>(1,255)</u>
<u>EXPENDITURES</u>				
General Government:				
Township Board	17,429	17,429	15,971	1,458
Supervisor	8,213	8,213	7,955	258
Elections	2,550	2,550	130	2,420
Professional Fees	4,000	4,000	303	3,697
Clerk	12,665	12,665	12,192	473
Treasurer	15,485	15,485	14,697	788
Board of Review	1,567	1,567	895	672
Township Hall	5,650	5,650	1,203	4,447
Assessor	8,305	8,305	8,172	133
Cemetery	<u>3,261</u>	<u>3,261</u>	<u>3,108</u>	<u>153</u>
Total General Government	<u>79,125</u>	<u>79,125</u>	<u>64,626</u>	<u>14,499</u>
Public Safety:				
Inspections	4,500	4,500	2,586	1,914
Fire	<u>28,560</u>	<u>28,560</u>	<u>27,160</u>	<u>1,400</u>
Total Public Safety	<u>33,060</u>	<u>33,060</u>	<u>29,746</u>	<u>3,314</u>
Public Works:				
Drains	1,500	1,500	2,618	(1,118)
Highways & Bridges	<u>320,580</u>	<u>320,580</u>	<u>174,650</u>	<u>145,930</u>
Total Public Works	<u>322,080</u>	<u>322,080</u>	<u>177,268</u>	<u>144,812</u>

MEDINA TOWNSHIP
Budgetary Comparison Schedule
General Fund
For The Year Ended June 30, 2004

	<u>Budget Original</u>	<u>Amounts Final</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
Community & Economic Development:				
Zoning Board	<u>2,388</u>	<u>2,388</u>	<u>185</u>	<u>2,203</u>
Total Community & Economic Development	<u>2,388</u>	<u>2,388</u>	<u>185</u>	<u>2,203</u>
Total Expenditures	<u>436,653</u>	<u>436,653</u>	<u>271,825</u>	<u>164,828</u>
Revenues Over (Under) Expenditures	(169,783)	(169,783)	(6,210)	163,573
Fund Balance, Beginning of Year	<u>178,729</u>	<u>178,729</u>	<u>178,729</u>	<u>---</u>
Fund Balance, End of Year	<u>\$ 8,946</u>	<u>\$ 8,946</u>	<u>\$172,519</u>	<u>\$163,573</u>

PHILIP R. RUBLEY

- *Certified Public Accountant* -

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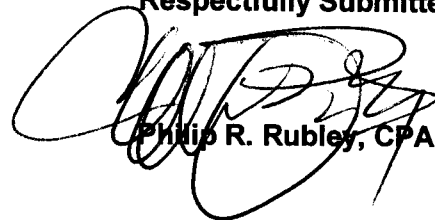
November 18, 2004

**Township Board
Medina Township
Lenawee County, Michigan**

In planning and performing my audit of the financial statements of Medina Township, Lenawee County, Michigan for the year ended June 30, 2004, I considered the Township's internal control structure in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements. The consideration I gave to the internal control structure was not sufficient for me to provide any form of assurance on it. However, in reviewing the Township's processes and systems, I made observations I feel should be communicated to you and I have done so in a separate letter dated November 18, 2004. In addition I have summarized other areas for Board consideration involving internal controls and fraud considerations.

If you have any questions on the information contained in this letter please contact me.

Respectfully Submitted,



Philip R. Rubley, CPA

PRR/cab

INTERNAL CONTROLS

Over a relatively short period of time, there have been several large fraud related cases documented in the mid-Michigan area, as well as in other areas of Michigan and throughout the country. These highly publicized cases have raised significant concerns for management of many organizations, as well as the board members of these not-for-profit organizations and governmental organizations, concerning their organization's vulnerability to internal or external fraud related activities. It is strongly believed that all organizations, both small and large, have some level of risk in this area and even having the "best practices" in place will not necessarily prevent the occurrence of this unfortunate activity.

Through many recent conversations with my clients regarding their susceptibility to fraud, it was noted the most important element necessary to reduce the risk of fraud is to have a sound organizational structure, which includes sound accounting and internal control policies and procedures (IN THE EYES OF THEIR EMPLOYEES). One of the key aspects of strong controls, and thus a deterrent, is senior management's support and involvement with accounting and internal control monitoring and related decisions.

Some of the key areas to focus on include, but are not limited to, the following:

- Cash receipts handling and posting to general ledgers including the initial posting of cash receipts.
- Posting of adjusting journal entries to the ledger.
- Cash disbursements, including the establishment of vendor master files in the computer system and maintenance and controls surrounding the signature of cash disbursement checks.
- Payroll, including the access to all master files detailing wage rates and other information, and the establishment of new employees in the computer system.
- Proper approval procedures for all disbursements including a good checks and balances system i.e.: no one person responsible for this function where possible.

FRAUD CONSIDERATIONS

Statement of Auditing Standards No. 99 (SAS99), consideration of Fraud in a Financial Statement Audit

Effective for the year ended December 31, 2003, Statement on Auditing Standards No. 99 (SAS99), *Consideration of Fraud in a Financial Statement Audit*, requires additional audit procedures addressing the risk of fraud in an organization. Our responsibility is not to detect fraud, but to detect material misstatements in the financial statements caused by fraud, and our consideration of fraud is integrated into the overall audit process.

Types of fraud include intentional misstatements or omissions in financial reporting and misappropriation of assets. SAS 99 requires auditors to address:

- How and where the client's financial statements might be susceptible to material misstatement due to fraud and what conditions might be present to allow fraud to occur.
- How management could perpetrate and conceal fraud.
- How management or employees could misappropriate assets of the client.

In addition, SAS 99 requires auditors to make inquiry of:

- Management regarding their awareness and understanding of fraud, fraud risks, and steps taken to mitigate risks.
- Others within the entity, including board members, non-financial executives, administrators, and non-management personnel not directly involved in the financial reporting process, regarding the existence of suspicion of fraud and the individual's views about the risks of fraud within the entity.

Risk areas identified through inquiries and based on industry knowledge will significantly affect the audit process. With your help, the implementation of these new standards will certainly lead to a greater comfort in the controls you have designed and implemented. It may even create greater efficiency in the accounting process as a byproduct of the process.

Creating A Culture Of Honesty And High Ethics

It is the Township's responsibility to establish core values and to effectively communicate the values to employees in order to create a culture with high ethical standards. The AICPA has included the following as key components necessary for the creation of such a culture.

Setting The Tone At The Top

Management, through the modeling of high ethics themselves and effectively communicating expectations to employees, is responsible for leading the effort to create the appropriate culture within the Township.

Creating A Positive Workplace Environment

The creation of a positive workplace environment, where employees feel they are treated fairly, has proven to reduce the risk of fraud. This type of environment could be created as follows:

Allowing employees to provide input related to the code of conduct.

- Enabling employees to internally seek advice concerning decisions that appear to have ethical implications.
- Establishment of a fair reward system.
- Implementation of team-focused decision making policies.

Hiring And Promoting Appropriate Employees

Policies must be effective in reducing the chances of hiring and promoting individuals with low ethical standards.

Training

Core values expressing an attitude of intolerance toward unethical behavior should be communicated immediately to new hires and should be recommunicated periodically to all employees.

Confirmation

Reinforcement of core values occurs if the employees are required to sign a code of conduct statement.

Discipline

Consequences of unethical behavior should be communicated upfront, and management response to unethical behavior should be consistent with the consequences communicated. Management's response demonstrates the level of commitment to the ethical standards and could deter future wrongdoing.

Evaluating Antifraud Processes and Controls

Perceived opportunity to successfully commit fraud increases the risk that fraud will occur. The following can help in reducing the opportunity for fraud.

Identifying And Measuring Fraud Risks

The Township's vulnerability to fraudulent activity (including Fraudulent financial reporting, misappropriation of assets, bribery and other illegal acts) should be assessed.

Implementing And Monitoring Appropriate Internal Controls

Internal processes can be modified to reduce fraud risk. Examples of such process modifications are as follows:

- Additional review of the procurement process
- Segregation of duties
- Adequate scrutiny of interim financial reports and budget reports by management

Developing An Appropriate Oversight Process

Whether it is external or internal oversight, appropriate oversight should be identified and established.

Township Board

The Township Board is ultimately responsible for ensuring management is doing an effective job of monitoring fraud risk and implementing procedures to mitigate fraud risk. Therefore, the Council should be evaluating management's assessments and controls.

Independent Auditors

Independent auditors can provide an assessment of the Township's process for identifying, assessing and responding to the risk of fraud.

Certified Fraud Examiners

Certified Fraud Examiners can provide additional insight into the risk assessment.

Other Information

The following Web sites provide additional guidance on fraud and the implementation of anti-fraud programs and controls:

American Institute of Certified Public Accountants
Association of Certified Fraud Examiners
Financial Executives International
Information Systems Audit and Control Association
The Institute of Internal Auditors
Institute of Management Accounts
National Association of Corporate Directors
Society for Human Resource Management

www.aicpa.org
www.cfenet.com
www.fei.org
www.isaca.org
www.theiia.org
www.imanet.org
www.nacdonline.org
www.shrm.org

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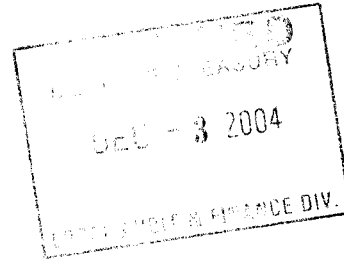
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November 18, 2004

**Township Board
Medina Township
Lenawee County, Michigan**

We have examined the combined financial statements of the Medina Township, Lenawee County, Michigan and the combining, individual fund and account group financial statements of the Township as of and for the year ended June 30, 2004, and have issued our report thereon dated November 18, 2004. As a part of our examination, we made a study and evaluation of the Township's system of internal accounting control to the extent we considered necessary to evaluate the system as required by auditing standards generally accepted in the United States of America. Under these standards, the purposes of such an evaluation are to establish a basis for reliance on the system of internal accounting control in determining the nature, timing and extent of other auditing procedures that are necessary for expressing an opinion on the financial statement and to assist the auditor in planning and performing his examination of the financial statements.

The objective of internal accounting control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal accounting control. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management either with respect to the execution and recording of transactions or with respect to the estimates and judgments required in the preparation of financial statements. Further, projection of any evaluation of internal accounting control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions and that the degree of compliance with the procedures may deteriorate.

Our examination of the financial statements made in accordance with auditing standards generally accepted in the United States of America, including the study and evaluation of the Township's system of internal accounting control for the year ended June 30, 2004, that was made for the purpose set forth in the first paragraph of this report, would not necessarily disclose all weaknesses in the system because it was based on selective tests of accounting records and related data.

Such study and evaluation disclosed the following conditions which we consider to be material weaknesses for which corrective action by the management of Medina Township is recommended:

1. **CHART OF ACCOUNTS – GASB 34**

The Township needs to update current chart of accounts to totally comply with changes.

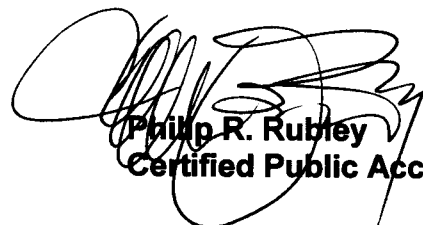
2. **MAINTENANCE OF FIXED ASSETS**

The Township needs to maintain records of additions and disposals of fixed assets each year, and keep data supporting assets to be depreciated over the \$1,000 threshold approved.

The above mentioned conditions were considered in determining the nature, timing, and extent of audit tests to be applied to our examination of the financial statements, and this report does not modify our report dated November 18, 2004, on such financial statements.

If we can be of any further assistance, please do not hesitate in contacting us.

Sincerely Yours,

A handwritten signature in black ink, appearing to read 'Philip R. Rubley', is written over the printed name and title.

Philip R. Rubley
Certified Public Accountant